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SIPDIS

STATE FOR EB/CIP FOR AHYDE AND EAP/ANP FOR TRAMSEY  
STATE PASS TO USTR FOR BWEISEL AND AMLEWIS  
COMMERCE FOR 4530/ITA/MAC/AP/OSAO/GPAINE

E.O. 12356: N/A

TAGS: [ECPS](#) [ECON](#) [ETRD](#) [NZ](#)

SUBJECT: NEW ZEALAND'S MOBILE TERMINATION RATES UNDER  
SCRUTINY

REF: WELLINGTON 428

[1](#)1. (SBU) Summary: The New Zealand Commerce Commission has launched an investigation into whether a lack of competition has placed the country among nations with the highest rates for terminating mobile phone calls. The commission could recommend regulation of termination charges. Telecom, the former state-owned telecommunications provider, argues that its termination rates are justified by the high cost of maintaining infrastructure in mountainous and sparsely populated New Zealand. Vodafone, the country's only other mobile operator, also opposes regulation of termination rates, contending that the marketplace is working and that rates have steadily dropped over the last six years. Meanwhile, TelstraClear -- which now resells Vodafone's mobile phone services but is developing its own mobile phone network -- welcomes the investigation and hopes it will result in mandatory price reductions. End summary.

Inquiry begins

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[1](#)2. (U) New Zealand's anti-monopoly watchdog, the Commerce Commission, on May 13 began investigating the fees that mobile phone companies charge other carriers to terminate calls on their networks. The commission on June 22 released an issues paper and invited submissions from interested parties, due July 19. AT&T, which pays what it claims are exorbitant rates on calls it handles to New Zealand, plans to make a submission. The commission is expected to publish its decision in mid-November. (The issues paper can be viewed on the commission's web site, [www.comcom.govt.nz](http://www.comcom.govt.nz).)

[1](#)3. (U) Vodafone and Telecom currently charge US 18 cents to 20 cents (NZ 27 cents to 30 cents) per minute to terminate calls to each other's mobile networks. Generally, the two companies set mobile termination fees at the same rate. However, they may charge different mobile termination rates to other carriers. AT&T reported that the termination charge to it for calls to New Zealand is US 23.5 cents (NZ 35 cents) per minute and that TelstraClear is seeking an increase to US 30 cents and Telecom, to US 25.6 cents.

[1](#)4. (U) The mobile termination charge can be the most expensive component of prices paid by callers to mobile phones, accounting for 30 to 60 percent of the per-minute cost of such calls. The Commerce Commission's recommendation on whether to regulate mobile termination rates could have significant impact in a country where there are 2.8 million mobile phones, along with 1.7 million fixed lines. The Communications Minister could accept the commission's recommendations, reject them or refer them back for further consideration.

The industry's views

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[1](#)5. (U) TELECOM: The former state-owned monopoly, Telecom New Zealand, has a 45.4 percent share of the mobile phone market and roughly 75 percent of the fixed-line market. In its submission to the Commerce Commission, Telecom plans to argue that its mobile termination rates are not excessively high. Bruce Parkes, Telecom's general manager of government and industry relations, said the submission would make two principal assertions. First, the cost of infrastructure needed to provide mobile telephone service to a relatively small population -- 4 million people -- is high in per-capita terms because a large number of cell tower sites are required to cover the nation's mountainous terrain, especially in comparison to countries such as Australia and the United Kingdom. Second, the higher mobile termination rates "cross-subsidize" lower mobile phone service prices, making the telecommunications market more efficient.

[1](#)6. (SBU) VODAFONE: The company has a 54.6 percent share of the mobile telephone market and has been gaining new mobile subscribers faster than Telecom. Vodafone New Zealand asserted that mobile termination rates have steadily dropped from US 33 cents (NZ 50 cents) in 1998 to less than US 20 cents (NZ 30 cents) this year and that the market should see that trend continue without regulation. Roger Ellis, Vodafone's public policy manager, also contended that it is unfair to compare termination rates in New Zealand -- where

the calling party pays for making calls to mobile phones -- to those in the United States -- where the receiving party pays. He said New Zealand's rates would not be viewed as particularly high if they were compared to rates in Europe, where the calling party also pays.

17. (U) TELSTRA CLEAR: Telecom's main land-line competitor, TelstraClear believes mobile termination rates in New Zealand are excessively high and therefore endorsed the Commerce Commission's investigation. Grant Forsyth, TelstraClear's manager of industry and regulatory affairs, said the rates should be more in line with those recommended by the Australian Competition and Consumer Commission (ACCC), which decided in June that termination fees in the country should be lowered gradually from US 14.6 cents (AUS 21 cents) per minute to US 8.3 cents (AUS 12 cents) on January 1, 2007.

18. (SBU) The comments by Telecom and TelstraClear have been relayed to AT&T, which requested that post contact the two companies on the mobile termination rate issue.

Comment

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19. (SBU) The Commerce Commission has been inconsistent in its approach to regulation, most recently reversing the decision in its draft report and recommending against local loop unbundling (reftel). The commission, nonetheless, has tended to favor increased regulatory pressure in situations where it might increase competition in the telecommunications market. This tendency suggests it may recommend regulating mobile termination rates. Telecom's Parkes, even as he defended the current rates, implied they probably would face mandatory reductions. Parkes said that he expected the ACCC decision to influence the Commerce Commission and that if the commission decides to regulate rates, the outcome would be similar to that in Australia.

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